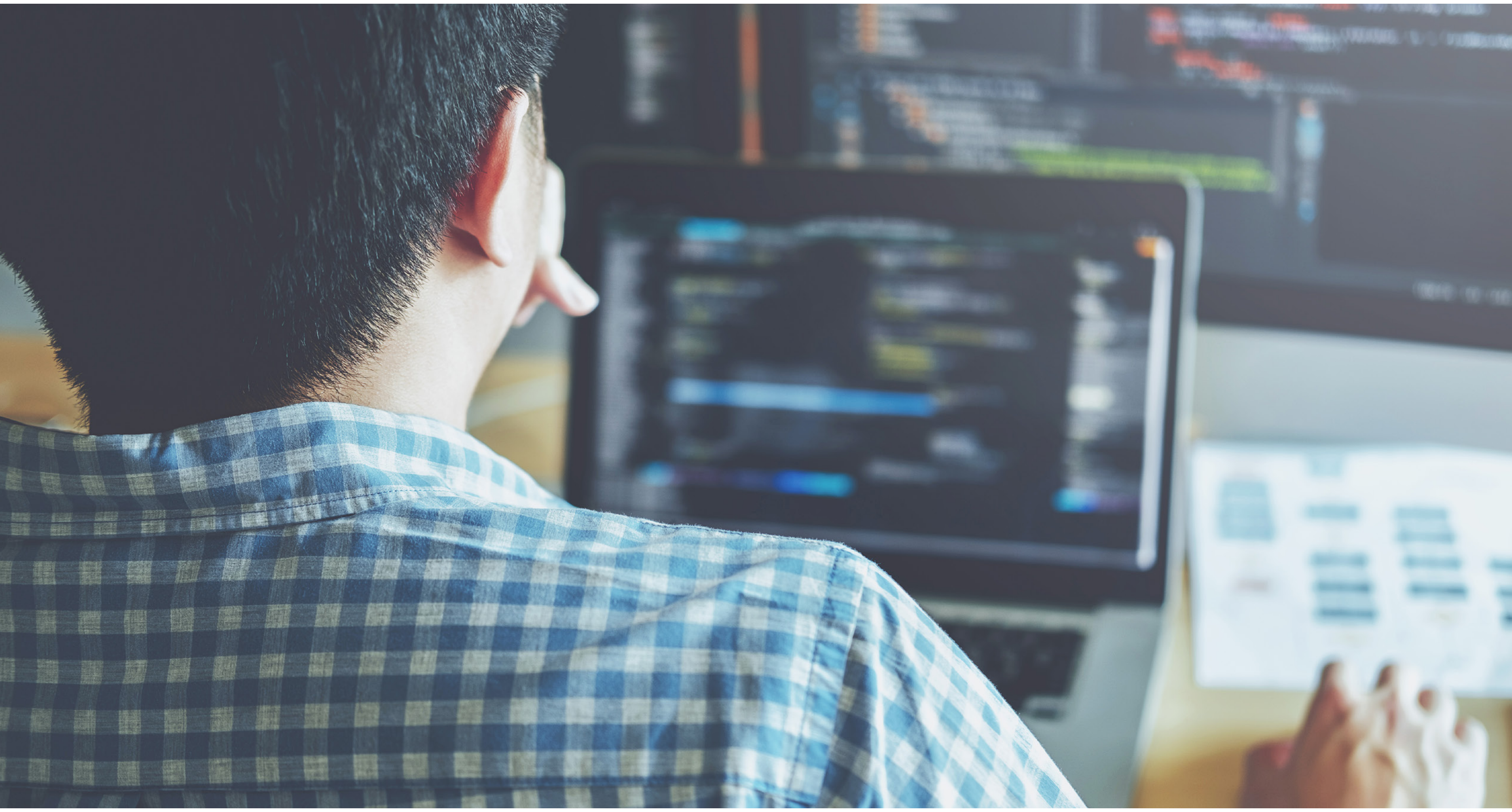
McKinsey & Company

Insurance Practice

Insurance resilience in a rapidly changing coronavirus world

In times of uncertainty, carriers can pursue resilience through a staged approach to stabilizing, reimagining, and transforming operations.

by Anshuman Acharya, David Hamilton, Pradip Patiath, Zachary Surak, Grier Tumas Dienstag, and Jasper van Ouwerkerk



April 2020

There is no question that addressing the humanitarian challenge of COVID-19 is the first priority of every government, business, and individual around the world. We're seeing enormous energy invested in suppressing the virus and saving lives with rigorous social measures and millions of heroic healthcare professionals and first responders putting their own lives at risk.

As the situation evolves hour by hour and day by day, it is difficult to predict its consequences with certainty. One certainty, however, is that the pandemic brings both balance-sheet and operational challenges to the insurance industry. Following are some of the most acute challenges that we are observing and anticipating for the near future across the global life and property and casualty (P&C) sectors:

Pricing, product, and balance-sheet disruptions

— Drops in interest rates forcing adjustments to new-business pricing and putting significant pressure on in-force blocks with rate-sensitive guarantees, particularly those written before the global financial crisis of 2007–08

— Risk of credit migrations leading to further balance-sheet challenges (for example, declining reserve ratios) and broader instability in financial markets (for example, disruption of normal money movements)

— Possibility of variable annuities with equity-linked guarantees breaking their hedges if the equity markets decline further

— Potential for reduced appetite for higher-value policies in a subsequent recession

Operational disruptions

— Disruption of new business and underwriting due to widespread dependence on paper applications and lost momentum in field operations caused by physical distancing

— Policy-servicing disruptions, with customer queries about parameters of coverage exceeding call-center capacity

— Performance erosion in the absence of robust work-from-home (WFH) capabilities

— Increased cyberrisk due to employees accessing systems from their home networks

Yet the crisis also presents an occasion to think hard about fostering and accelerating innovation, delivering improved customer experiences, fundamentally changing the cost structure, and upskilling and reskilling employees for the future. In addition, it reasserts the industry's relevance as a safe harbor in times of uncertainty.

Successful COVID-19 responses from Asia have taught us four important lessons: go for pragmatic and fast solutions rather than perfect solutions (speed is a strategy unto itself), adapt a new digital way of working to engage agents and customers, stay close to customers and provide them with valuable information, and seek innovation in products, distribution, and customer reach. This article is meant to provide global carriers' decision makers with a map to tackle immediate challenges while balancing the fiduciary responsibility of positioning the business for the future. We focus here on enablers for building resilience.

Tactical and strategic levers for life and P&C carriers

Based on our global experience, especially in Asia and Western Europe, we believe that navigating this new world and emerging in the "next normal" requires a comprehensive and ambitious response across five stages—resolve, resilience, return, reimagination, and reform.[1] In this article, we consider a broad set of tactical and strategic levers for insurers across these stages—including innovating the product portfolio, driving channel migration, accelerating the move to fee-based earnings, making in-force management a strategic priority, rethinking the cost base, and upgrading talent and ways of working.

Resolve: Starting with no-regret moves

In the early days of a crisis, much of the focus has rightly been on mitigating risks for employees

[1] For more, see Kevin Sneader and Shubham Singhal, "Beyond coronavirus: The path to the next normal," March 2020, McKinsey.com.

It is essential to rapidly deploy an ambitious, top-down resilience plan across five stages, while engaging the full gamut of levers across the value chain.

and ensuring operational continuity. In the most successful instances, carriers have been able to do both using the following playbook.

Expand work-from-home arrangements to all possible functions. Many insurers have already expanded work-from-home (WFH) orders to as much of the company as possible. Doing so helps to protect the health and safety of employees during the pandemic, provide continuity through the crisis, and build a strategic capability for the future. Where capabilities already exist, WFH arrangements can be scaled up with the use of clear policies and expectations and the tools and resources (high-speed internet, server/application virtualization, rapid training, and so on) employees need for collaborating internally and externally while adhering to local shelter-in-place (or similar) requirements.

For functions that typically do not allow for WFH arrangements, introducing the right workforce management behaviors and operational discipline can support productivity as well as the mental health of employees. Individual function and line leadership can turn to proven remote-working models, such as adopting daily check-ins and checkouts and frequent touchpoints in place of typical in-person staff meetings and team huddles to identify and resolve issues. It is important to rapidly establish norms for the use of collaboration tools and protocols for confidentiality and data protection to contain the risk imposed by the migration of the work environment to individuals' homes. Several enterprises in China offer helpful lessons for adapting the workforce to WFH arrangements.[2]

Prepare IT for critical-services capacity and heightened cybersecurity needs. IT preparedness for security and bandwidth needs has been a bottleneck for some firms setting up WFH capabilities. Across the insurance industry, some carriers have shelved their remote-video capabilities to reduce bandwidth usage on their virtual private networks. By stress-testing their capabilities and adjusting capacities urgently, IT leaders can ensure continuity during the crisis, as well as reduce security risk. Further, IT leaders need to be aware of new cybersecurity threats that WFH arrangements present and consider several steps, such as accelerating the monitoring of collaboration tools, networks, employees, and end points.[3]

Resilience and return: Weathering the crisis

Given the uncertainty about the duration of COVID-19 in individual markets, a clear priority is the development of contingencies for the possibility of extended impact, including the potential for second and third waves of the virus. Building these contingencies requires taking a hard look at initiatives that will improve both the use of resources and field productivity.

Get a cross-enterprise handle on cash flows and both internal and third-party capacity. Carriers should prepare for decreased demand for products and resulting expense overruns. "P&L control towers," which monitor and manage premium and

[2] For more, see Raphael Bick, Michael Chang, Kevin Wei Wang, and Tianwen Yu, "A blueprint for remote working: Lessons from China," March 2020, McKinsey.com.

[3] For more, see Jim Boehm, James Kaplan, and Nathan Sportsman, "Cybersecurity's dual mission during the coronavirus crisis," March 2020, McKinsey.com.

revenue inflow, as well as spending on procured products and services, can flex more dynamically than standard business units or procurement departments typically allow. Similarly, "HR control towers" manage employee upskilling and reskilling needs, as well as the recruiting pipeline, while balancing capacity for claims handlers and other positions with spiking demand.

Accelerate digital engagement across the customer journey. As billions of people shelter in place, the importance of digital interactions takes unprecedented priority. Insurers that have developed mature digital functions in sales and distribution, service and retention, and claims are well positioned to weather the crisis—and those that haven't must act fast to catch up:

— *Sales and distribution.* There has never been a better time to encourage sales forces and intermediaries to abandon paper and move everything—from digital lead generation to binding agreements—online, enabling reps and agents to remain productive without putting them in physical risk. In the face of COVID-19, Chinese insurers rapidly adopted video and messaging apps to enable an end-to-end customer journey that facilitates customer authentication, face-to-face digital meetings, and application completion and execution. In some cases, technology is enabling wholesalers to see 30 to 50 percent more prospects on a weekly basis. By moving entirely online, carriers can also accelerate remote and digital agent recruiting and onboarding.

— *Service.* In moments of distress, carriers would do well to increase the focus on the customer by designing and migrating to new customer journeys and automated digital service channels for all steps of the value chain. Carriers can eliminate paper forms entirely by using existing technology, such as video claims appraisal, self-serve profile changes, and a messaging-app-based first notice of loss. Leaders can rapidly expand digital-channel adoption not only for standard requests but also for new requests arising from the crisis (for example, to check coverages in lines of business affected by employee wellness, life events, or work stoppages).

— *Claims.* Carriers could start by adopting and scaling approaches to deliver simplified and convenient claims service, including increasing reliance on video-enabled adjustment for lines that cover physical damage. In the intermediate term, carriers can replace the manual process of uploading medical records and reviewing bills with automated feeds, as well as use natural language processing to gain insight from customer and claimant emails. Doing so will help claims organizations mature toward more straight-through processing, starting with simple claims, such as property damage auto claims or medical-only workers' compensation claims. Accelerating such transformations can drive structural efficiencies in end-to-end claims and protect against future outsourcing provider interruptions and spikes in claim volume.

Strengthen collections and fraud detection. Given the economic slowdown, which is hitting small and midsize businesses and consumer segments the hardest, collections chargeoffs and fraud will likely spike in the coming months—similar to what the industry experienced in the past two recessionary cycles. Life and P&C carriers should take preventive steps to minimize operational disruption and develop and implement strategies to manage credit-risk exposure.[4] They might increase sensitivity to early-warning systems, for example, or pilot a contingency strategy in the event that call-center capacity is depleted by more than 50 percent.

The crisis will test a carrier's brand and customers' loyalty, so strengthening collections needs to be balanced with retention of at-risk customers. Carriers can consciously provide lenient arrangements to delay or spread out payments for loyal customers or specific product lines with higher risk of attrition.

Reimagination and reform: Emerging from the crisis

As regions exit the most critical crisis period, a "new normal" will set in. However, the lasting impact on the population and economy will be dramatic, affecting the demand for insurance for years to come. While taking that into account, carriers will at some point be able to focus again on longer-term strategies and initiatives.

Drive structural improvements. Since the 2007–08 financial crisis, the cost structure in insurance, as a percentage of premium, has deteriorated, indicating that the industry as a whole has not prioritized productivity improvement.[5] Once carriers have stabilized operations and started reimagining their processes and customer journeys, they can take real, urgent action to embed the changes within their core operations and beyond. A transformation office reporting to the CEO (discussed in the next section) can be empowered to set bold targets, leave no stone unturned to identify opportunities, marry transparency with individual accountability, and adopt incentives that reward superior performance. Banking, telecom, and consumer products have all successfully demonstrated the value of taking a zero-based budgeting and operating approach to drive structural improvements across the entire cost base. The insurance industry will soon look to do the same.

Future-proof the organization. As the crisis resolves, carriers can take a comprehensive approach to redesigning their operating models, to both reduce dependence on legacy operations and increase resilience during future events. This approach could include exploring geographic disaster recovery, site operational risk protocols, supply chain resilience (for example, business process outsourcing and vendor redundancy), and workforce flexibility. Finally, carriers may also consider introducing new products suitable for a recessionary economy, such as higher-face-value life insurance policies without a medical exam and basic and more price-competitive small-business insurance.

Organizing for resilience: A practical way to get started

Despite the significant uncertainty created by COVID-19, carriers cannot afford to wait and observe how the situation evolves. It is essential to rapidly deploy an ambitious, top-down resilience plan across the five stages, while engaging the full gamut of levers across the value chain. To execute and balance immediate action with flexibility to tackle evolving challenges, insurers can mobilize resources organized into three teams: a disruption office focused on resolve and stabilizing operations, a strategy office dedicated to resilience and return, and a transformation office to reimagine, reform, and embed the changes (exhibit).

Disruption office: Stabilize operations (weeks 1–4):

Carriers that haven't already done so should consider launching a disruption office, possibly led by the chief operating officer, which would be an integrated "nerve center" to ensure the adequate discovery of risks, coordinate the portfolio of remedial actions based on scenarios and triggers, and deploy sufficient resources where and when needed.[6] The core objectives of this team would be to work through bottlenecks and keep the response moving while allowing autonomy for core operations to maintain continuity and for strategists to think about the future road map.

An effective cadence would include specific, rolling 48-hour and one-week goals to achieve near-term priorities and a dashboard to track progress and manage threats in real time. The team's focus would span the spectrum of stakeholders—employees, customers, and the business. The following are some of the common actions carriers are implementing to stabilize their operations:

— Employees: Rolling out measures to tackle the changing environment and communicate the carrier's support—for example, more flexible working times, childcare subsidies

[4] For more, see Ademar Bandeira, Bruno Batista, Adelmo Felipe, Matt Higginson, Frédéric Jacques, Frederico Sant'Anna, and Alexandre Sawaya, "Addressing the needs of customers in delinquency impacted by the coronavirus," March 2020, McKinsey.com.

[5] Bernhard Kotanko, Björn Münstermann, Pradip Patiath, Jasper van Ouwerkerk, and Ulrike Vogelgesang, "The productivity imperative in insurance," August 2019, McKinsey.com.

Exhibit

An illustrative action plan models actions of the disruption, strategy, and transformation offices.

Week 1 — Week 16 | **Potential leader**[1]

Disruption office
Stabilize operations (weeks 1–4)
- Ensure adequate discovery of risks.
- Coordinate remedial actions and deploy sufficient resources to take care of employees and customers.
- Establish rolling 48-hour and 1-week goals with dashboards to manage threats in real time.

Potential leader: **Chief operating officer**

Strategy office
Reimagine processes and journeys (weeks 1–8)
- Develop transformative road map for the new normal.
- Apply zero-based approach to design more resource-efficient processes, offering better customer experience.
- Scale approach across the value chain, from sales to servicing.

Potential leader: **Head of strategy**

Transformation office
Embed changes (weeks 4–16+)
- Set up robust execution engine, drive rigorous decision-making cadence, and implement radical transparency (impact, resource needs, and roadblocks).
- Establish common methodology for valuing impact and a digital program-management platform to provide clarity on initiatives.
- Create informed plan to maintain focus on organizational health and culture to achieve sustainable performance excellence.

Potential leader: **Chief transformation officer**

[1] In partnership with the CEO, chief financial officer, chief human resources officer, and chief information officer.

— Customers: Ensuring that customer-care units are reachable; keeping customers informed of capacity constraints; deploying self-service, automation, and additional capacity to tackle personnel shortages in service-critical functions; and minimizing customer-data risk of cyber exposure

— Business: Ensuring business continuity by immediately stress-testing solvency; modeling cash-flow, P&L, and balance-sheet impact in three or four scenarios; and identifying potential triggers of significant liquidity events. They also are adjusting new-business pricing, taking into account new economic variables, and (most applicable to life insurers) considering removing some products from the shelf entirely.

Strategy office: Reimagine processes and journeys (weeks 1–8):
A strategy center can be used to implement a top-down, fresh perspective on the future operating model. The center can be led by the head of strategy or someone in another role who is well equipped to understand the current operation but is also a visionary who will create a truly transformative road map for the new normal that can be rapidly deployed as the organization stabilizes.

[6] For more, see Mihir Mysore and Ophelia Usher, “Responding to coronavirus: The minimum viable nerve center,” March 2020, McKinsey.com.

This strategy team can apply a zero-based approach to reimagine processes and customer journeys. The approach considers the minimum (zero-based) budget, staffing, and external spending required to maintain baseline operations, from sales and distribution to in-force servicing. Processes can then be built using analytics, automation, and sourcing best practices to design a more resource-efficient alternative that also offers improved customer experience. These efforts will make possible several of the digital journeys discussed in the previous section.

Transformation office: Embed the changes (weeks 4–16+):
As a carrier stabilizes, it will be able to mobilize the broad participation of the organization during the crisis to embed the new normal into the fabric of the company. Doing so requires the carrier to set up a robust execution engine, led by a chief transformation officer who drives the weekly cadence of decision making (not process) and creates radical transparency—of impact, interdependencies, resource needs, trade-offs, and roadblocks. Coupling this engine with a common methodology and language for evaluating impact and a digital program-management platform will help the carrier understand the maturity and progress of each initiative.

Second, the carrier can fundamentally rebase expectations of its people and footprint, starting with an evaluation of what it was able to achieve while operating in an entirely remote manner and with capacity constraints. Leaders are now learning, on a whole new level, what their teams are capable of—and it will be important to ensure that those breakthroughs aren't lost in a transition back to the physical office. Leaders can roll up what will probably be a large number of initiatives emerging from the strategy office into an integrated plan, against which they will be able to measure performance and set budgets going forward. Doing so would help avoid siloed or watered-down execution. In addition, carriers could formalize the remote-working model, cross-train their workforce, and embed flexibility into the operating model to ensure that they will be better poised to respond to future crises.

Of course, sustaining the new operating model requires an informed plan that focuses on organizational health and culture. The plan could be informed by an assessment of the elements that have bred the carrier's success, such as alignment with a shared vision, shared goals, and incentives at every level as well as clear roles and transparent performance.

First and foremost, insurance leaders need to manage the immediate threat to people's health and well-being and be sensitive to those customers most affected by the crisis. To exit the crisis with a more customer-focused, efficient, and resilient organization, insurance leaders need to plan ahead, engage the gamut of strategic and tactical levers discussed here, and use radical transparency to advance change. Insurers can sustain momentum and make long-lasting changes even in the challenging times ahead.

Anshuman Acharya is a consultant in McKinsey's Chicago office, where **Pradip Patiath** is a senior partner. **David Hamilton** is a partner in the Detroit office, **Zachary Surak** is a partner in the New Jersey office, **Grier Tumas Dienstag** is an associate partner in the Boston office, and **Jasper van Ouwerkerk** is a senior partner in the Amsterdam office.

Contact

For more information, please contact:

Anshuman Acharya
Consultant, Chicago
Anshuman_Acharya@McKinsey.com

Pradip Patiath
Senior partner. Chicago
Pradip_Patiath@McKinsey.com

David Hamilton
Partner, Detroit
David_Hamilton@McKinsey.com

Zachary Surak
Partner, New Jersey
Zachary_Surak@McKinsey.com

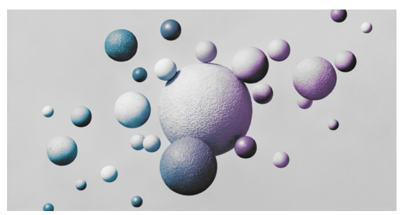
Grier Tumas Dienstag
Associate partner, Boston
Grier_Tumas_Dienstag@McKinsey.com

Jasper van Ouwerkerk
Senior partner, Amsterdam
Jasper_van_Ouwerkerk@McKinsey.com

Further insights

McKinsey's Insurance Practice publishes on issues of interest to industry executives. Our recent articles include:

Coronavirus response: Short- and long-term actions for P&C insurers



The productivity imperative in insurance